

# The Role of HUD Housing Programs in Response to Hurricane Katrina

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## Summary

The catastrophic devastation wrought by Hurricane Katrina in late August 2005, and to a lesser degree, Hurricanes Wilma and Rita, led to the displacement of hundreds of thousands of families. Following the storm, the Federal Emergency Management Agency (FEMA) took primary responsibility for meeting the emergency housing needs of displaced families. The Department of Housing and Urban Development (HUD), the nation's housing agency, also played a role. HUD modified its existing grant programs—primarily through waivers—to make them more flexible for communities wishing to serve displaced families. The department also took steps to aid displaced families that had been homeless or receiving HUD assistance prior to the storm by developing a new voucher program, and by issuing guidance to lenders offering protections for homeowners with FHA-insured mortgages. Finally, Congress has used HUD programs, particularly the Community Development Block Grant (CDBG) program, as a conduit for providing relief and recovery funds to devastated communities. This report details HUD's efforts to provide assistance to affected families and communities immediately after the storm and in the initial rebuilding stages. It will not track HUD's role in the longer-term rebuilding of the devastated areas.

## **Contents**

Grant Programs.....	1
Assisted Housing.....	1
Mortgage Insurance Programs.....	2
CDBG Supplemental Appropriations .....	3
Developments.....	5

## **Tables**

Table 1. Allocation of CDBG Disaster Relief Assistance Following Hurricanes Katrina, Rita, and Wilma .....	5
Table 2. Hurricanes Katrina, Rita, and Wilma Disaster Relief Funding.....	5
Table 3. HUD Supplemental Appropriations for Hurricane Katrina Disaster Relief .....	7

## **Contacts**

Author Information.....	9
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## Grant Programs

As in past disasters, the Secretary of HUD issued a number of waivers to permit local communities to redirect their existing HUD housing and community development grant funds to meet their emergency needs shortly after the storm.<sup>1</sup> Waivers were issued for the Community Development Block Grant (CDBG) program<sup>2</sup>, the HOME Investments Partnerships Program (HOME), the Emergency Shelter Grants Program (ESG), and the Housing for Persons with AIDS Program (HOPWA). Waivers issued ranged from extensions in the amount of time grantees had to spend their funds to easing of benefit eligibility requirements. HUD also issued \$2 million in base program funding as “Imminent Threat” funding to Indian Community Development Block Grant recipient communities affected by the storm.<sup>3</sup>

## Assisted Housing

The Administration was proactive in making existing housing programs and assistance available to victims of Katrina. Immediately after the storm, HUD created a toll-free number that allowed displaced HUD-assisted families (e.g., public housing residents and Section 8 rental housing voucher holders) to reestablish their benefits. In conjunction with that number, HUD identified a number of vacant units across the country in which to house displaced tenants, both formerly assisted and unassisted. HUD also issued a notice summarizing waivers available to public housing authorities (PHAs), including suspensions of reporting deadlines, loosening of quality standards and income determination rules, and increases in subsidy limits for public housing authorities affected by the storm.<sup>4</sup> The department also made emergency capital reserve funds available to local PHAs to repair damaged public housing units.<sup>5</sup>

*FEMA-HUD Joint Initiative.*<sup>6</sup> On September 24, 2005, the Secretaries of HUD and Homeland Security announced a joint transitional housing assistance initiative for Hurricane Katrina evacuees.<sup>7</sup> The initiative provided two types of assistance, both funded by emergency funds provided to FEMA in a supplemental appropriation shortly after the storm. The first was a type of individual and household grant administered by FEMA. Displaced homeowners and renters (except for HUD-assisted renters) received a cash grant of \$2,358 to be used for housing-related expenses. The amount was meant to represent three months of housing costs and was calculated using the national average fair-market rent (FMR) for a two-bedroom apartment. The assistance could be extended for up to 18 months.

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<sup>1</sup> For a list of waivers issued, see <http://www.hud.gov/katrina/proguidance.cfm>.

<sup>2</sup> For a discussion of the use of CDBG funds after a disaster, see CRS Report RL33330, *Community Development Block Grant Funds in Disaster Relief and Recovery*, by Eugene Boyd.

<sup>3</sup> HUD Press Release, *HUD Katrina Accomplishments—One Year Later*, available from HUD’s website at <http://www.hud.gov/news/katrina05response.cfm>.

<sup>4</sup> A description of temporary waivers is available at <http://www.hud.gov/offices/pih/publications/katrinapihadminwaiv.pdf>.

<sup>5</sup> HUD issued a grant of \$21.8 million to the Housing Authority of New Orleans and a grant of \$7 million to the Biloxi Mississippi Housing Authority. HUD Press Release, *HUD Katrina Accomplishments—One Year Later* <http://www.hud.gov/news/katrina05response.cfm>.

<sup>6</sup> For an expanded discussion, see CRS Report RL33173, *Hurricane Katrina: Questions Regarding the Section 8 Housing Voucher Program*, by Maggie McCarty.

<sup>7</sup> FEMA Press Release DHS-05-09-24, *US Government Announces A Comprehensive Transitional Housing Assistance Program For Katrina Evacuees*, September 24, 2005.

Second, for families who were homeless or receiving HUD assistance before the storm, FEMA initially provided funding to HUD, through a mission assignment, to administer the HUD Katrina Disaster Housing Assistance Program (KDHAP). It provided ongoing rental assistance, for up to 18 months, to displaced HUD-assisted renters (including Section 8 voucher holders, families who had lived in public housing, and families who had lived in other forms of HUD-assisted rental housing) and displaced homeless<sup>8</sup> families. It was administered by local PHAs and was calculated at 100% of the local area FMR. Families were required to pay any difference between the rental assistance amount and the actual rent for the unit they selected. This program had no income eligibility or targeting requirements, and families' eligibility was determined after they registered for FEMA assistance and contacted HUD.

*Disaster Voucher Program.* Language included in the FY2006 Defense Appropriations Act (P.L. 109-148) transferred \$390 million in FEMA funds to HUD to administer a modified form of KDHAP called the Disaster Voucher Program. The act also included administrative provisions permitting housing authorities to combine their public housing and Section 8 voucher funds, and directed the Secretary, to the extent feasible, to preserve all assisted housing damaged by the storm.

## **Mortgage Insurance Programs**

On August 31, 2005, HUD issued mortgagee letter 2005-33,<sup>9</sup> reminding HUD-approved lenders that when the President declares a disaster, as in the case of Hurricane Katrina, it automatically triggers certain procedures with regard to FHA-insured mortgages in the affected areas. The following procedures become effective for one year from the date of declaration: (1) a moratorium on foreclosures for 90 days from the date of declaration<sup>10</sup>; (2) lenders are encouraged to offer special forbearance, mortgage modification, refinancing, and waiver of late charges to affected borrowers; (3) families whose residences were destroyed or severely damaged are eligible for 100% financing under the Section 203(h) program for the cost of reconstruction or replacement; (4) damaged properties become eligible for Section 203(k) financing, under which costs to purchase and rehabilitate the property are included in one loan and HUD waives the requirement that the property has been completed for more than one year prior to application for the mortgage; (5) underwriting guidelines are relaxed to permit disaster victims to qualify for loans even if their total monthly debt, including the proposed mortgage, would equal 45% of gross income; and (6) lenders must ensure that hazard claims are expeditiously filed and settled, and lenders may not retain hazard insurance proceeds to make up an existing arrearage without written consent of the borrower.

The Section 203(h) program is available for borrowers who already own homes in the affected area. The loans are limited to the FHA loan limit for the area, subject to the provision that the loan may not exceed 100% of the appraised value of the property. In some cases it may not be possible to obtain 100% financing. It may often be the case that the cost to repair or replace the property exceeds the appraised value of the property. This is the reason that most lenders require borrowers to obtain hazard insurance that covers the replacement cost of the property instead of

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<sup>8</sup> Homeless families were eligible if they had been living in an affected area in the week immediately prior to the hurricanes, and either sleeping in a place not meant for human habitation or residing in an emergency shelter, transitional housing or housing provided through the HUD homeless programs; their homeless status had to be confirmed by housing or homeless services providers.

<sup>9</sup> Available at [http://www.hudclips.org/sub\\_nonhud/cgi/pdfforms/05-33ml.doc](http://www.hudclips.org/sub_nonhud/cgi/pdfforms/05-33ml.doc).

<sup>10</sup> HUD Mortgagee letter 2005-45, issued November 22, 2005, extended this deadline for many areas affected by Katrina through the end of February 2006.

its appraised value. The Section 203(k) program permits borrowers who do not already own homes to purchase and rehabilitate properties in the area that are either abandoned by owners, or are being sold by owners who do not want to repair them and remain in the area. The current FHA underwriting guidelines provide that a prospective borrower's total debt, including the proposed mortgage payment, may not exceed 41% of the borrower's gross monthly income. In recognition of the fact that borrowers in these programs (§203 (h) and (k)) may have to incur debt to replace personal property, the underwriting guidelines are relaxed to permit loans to borrowers whose total debt is up to 45% of gross monthly income. The limit may even be exceeded if justified by compensating factors.

On December 5, 2005, HUD announced the Mortgage Assistance Initiative (MAI), under which HUD will make mortgage payments for up to 12 months on behalf of borrowers who have FHA-insured mortgages on their homes and who have been displaced or are unemployed because of the recent disasters. Eligible borrowers must: (1) have homes that are repairable and are located within parts of Alabama, Florida, Louisiana, Mississippi, or Texas declared eligible for individual assistance as a result of Hurricanes Katrina, Rita, or Wilma; (2) have missed between four and 12 payments on an FHA-insured home loan; (3) be temporarily unable to make mortgage payments but have the expectation to resume full mortgage payments; and (4) the homes must be the primary residences of the borrowers and the borrowers must be committed to continued occupancy of the properties as primary residences. No interest is charged on the MAI loans, and repayment is not required until the original FHA-insured loans are repaid. The program is scheduled to expire 18 months after it began, and is expected to assist about 20,000 families.<sup>11</sup> FHA notes that more than 52,000 FHA-insured loans were delinquent due to the storms.<sup>12</sup>

In April 2005, before Hurricane Katrina struck, HUD augmented its existing 203(k) program by announcing the "Streamline(k) Limited Repair Program" to facilitate the purchase of properties needing minor rehabilitation (HUD Mortgagee Letter 2005-19). Eligible properties were those needing repairs costing at least \$5,000 but not more than \$15,000. The program was amended in December to, among other changes, eliminate the minimum repair cost, increase the maximum repair cost to \$35,000, and make lead-based paint stabilization an eligible work item (HUD Mortgagee Letter 2005-50). The Streamline(k) program is not directed specifically at properties damaged by Katrina, but could facilitate the purchase and repair of such properties that meet program requirements.

## **CDBG Supplemental Appropriations**

Congress enacted several emergency supplemental funding bills following the hurricanes, two of which provided CDBG funds to affected communities.<sup>13</sup> The Defense Appropriations Act for FY2006 (P.L. 109-148) provided \$11.5 billion for CDBG for "necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure in the most impacted and distressed areas" in the five states impacted by Hurricanes Katrina, Rita, and Wilma. The act allowed

- the affected states to use up to 5% for administrative costs;

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<sup>11</sup> "HUD Announces Mortgage Assistance for Disaster Victims: \$200 Million Initiative Designed to Rebuild Lives and Communities," HUD No. 05-164, available at <http://www.hud.gov/news/release.cfm?content=pr05-164.cfm>.

<sup>12</sup> Leslie Eaton, "Mortgage Aid Set for 20,000 Storm-Hit Homes," *New York Times*, December 6, 2005.

<sup>13</sup> For more information on supplemental disaster funding, see archived CRS Report RS22239, *Emergency Supplemental Appropriations for Hurricane Katrina Relief*, by Keith Bea.

- HUD to grant waivers of program requirements (except those relating to fair housing, nondiscrimination, labor standards, and the environment);
- Mississippi and Louisiana, the most affected states, to use up to \$20 million for local community development corporations; and
- the Governor of each state to designate multiple entities to administer either a portion or all of a state's share of the \$11.5 billion.

The act also lowered the income targeting requirement for activities benefitting low- and moderate-income persons from 70% to 50% of the state's allocation; limited the maximum amount of assistance any of the five states may receive to no more than 54% of the total amount appropriated; and required each state to develop, for HUD's approval, a plan detailing the proposed use of funds, including eligibility criteria and how the funds will be used to address long-term recovery and infrastructure restoration activities. On January 25, 2006, HUD announced its allocation of the funds. Using data from FEMA and several other agencies, HUD calculated the extent of each state's unmet housing needs and areas of concentrated distress for each of the five states.<sup>14</sup> HUD allocated 55% of the funds based on each state's unmet housing needs and the remaining 45% on the degree of concentrated distress as measured by each state's share of damaged and destroyed housing stock, and business and infrastructure damage.

On February 13, 2006, HUD published a notice of allocations, waivers, and alternative requirements governing the CDBG disaster recovery assistance. In addition to providing waivers allowing the states to allocate funds to CDBG entitlement communities and directly administer the program, the notice also included language stating that "Funds allocated are intended by HUD to be used toward meeting unmet housing needs in areas of concentrated distress."<sup>15</sup> The language included in the act did not restrict the use of these funds to unmet housing needs. Rather, the act provided some level of flexibility allowing funds to be used for long-term recovery and infrastructure restoration in the areas most affected by the Gulf Coast Hurricanes of 2005.

On June 15, 2006, the President signed P.L. 109-234, a second emergency supplemental appropriations act, providing funds for Gulf Coast recovery efforts. The law included \$5.2 billion in additional CDBG assistance for the states of Alabama, Florida, Louisiana, Mississippi, and Texas. It limited the amount that any one state could receive to \$4.2 billion, and encouraged states to target assistance to infrastructure reconstruction and activities that would spur the redevelopment of affordable rental housing, including federally assisted housing and public housing. The law contained provisions regarding the use and administration of funds, including most of the provisions that applied to the funds authorized by P.L. 109-148, as well as provisions that

- required that at least \$1 billion of the CDBG amount be used for repair and reconstruction of affordable rental housing in the impacted areas;
- ensured that each state's plan gives priority to activities that support infrastructure development and affordable rental housing activities;
- required each state to file quarterly reports with House and Senate Appropriations Committees detailing the use of funds;

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<sup>14</sup> HUD, *Jackson Announces Distribution of \$11.5 billion in Disaster Assistance to Five Gulf Coast States Impacted by Hurricanes*, available at <http://www.hud.gov/news/release.cfm?content=pr06-011.cfm>.

<sup>15</sup> Federal Register, *Allocation and Common Application and Reporting Waivers Granted to and Alternative Requirements for CDBG Disaster Recovery Grantees Under the Department of Defense Appropriations Act, 2006*, Vol. 71, No. 29, February 13, 2006, p. 7666.

- required HUD to file quarterly reports with the House and Senate Appropriations Committees identifying actions by the department to prevent fraud and abuse, including the duplication of benefits; and
- prohibited the use of CDBG funds to meet matching fund requirements of other federal programs.

On July 11, 2006, HUD announced that \$4.2 billion of the \$5.2 billion supplemental appropriation for CDBG would be allocated to Louisiana, and on August 18, it announced how funds would be distributed to the remaining states (see **Table 1**). HUD determined the distribution of funds for Alabama, Florida, Mississippi, and Texas based on unmet need, analyzing data from FEMA and the Small Business Administration. It then invited each state to provide their own data on remaining recovery needs in order to make its decision.

**Table 1. Allocation of CDBG Disaster Relief Assistance Following Hurricanes Katrina, Rita, and Wilma**

State	P.L. 109-148	P.L. 109-234	P.L. 110-116	Total
Alabama	\$74	\$21		\$96
Florida	83	100		183
Louisiana	6,210	4,200	3,000	13,410
Mississippi	5,058	423		5,481
Texas	75	429		503
Total	11,500	5,173	3,000	19,673

**Source:** HUD news releases, July 11, 2006: <http://www.hud.gov/news/release.cfm?content=pr06-079.cfm>, and August 18, 2006: <http://www.hud.gov/news/release.cfm?content=pr06-099.cfm> and Federal Register, *Allocation and Common Application and Reporting Waivers Granted to and Alternative Requirements for CDBG Disaster Recovery Grantees Under the Department of Defense Appropriations Act, 2006*, February 13, 2006, vol. 71, no. 29, p. 7666.

## Developments

Two important developments related to HUD's role in response to the 2005 hurricanes occurred after the initial response period that is the focus of this report. First, in July 2007, FEMA announced it would transfer responsibility for ongoing housing assistance for families displaced by the 2005 hurricanes to HUD, noting HUD's expertise in assisting families with long-term housing needs through its existing infrastructure of PHAs. Additional funding related to this added responsibility was provided to HUD in FY2008 and FY2009, as shown in **Table 2** and **Table 3**. Second, in November 2007 Congress provided another \$3 billion in emergency supplemental CDBG funding to Louisiana for its recovery needs (P.L. 110-116).

**Table 2. Hurricanes Katrina, Rita, and Wilma Disaster Relief Funding**  
(in millions of dollars)

	Public and Indian Housing	CDBG	Permanent Supportive Housing	Inspector General	Totals
P.L. 109-148 (FY2006)	390	11,500			11,890



	Public and Indian Housing	CDBG	Permanent Supportive Housing	Inspector General	Totals
P.L. 109-234 (FY2006)		5,200			5,200
P.L. 110-28 (FY2007)				7	7
P.L. 110-116 (FY2008)		3,000			3,000
P.L. 110-252 (FY2008)			73		73
P.L. 110-329 (FY2008)	150				
P.L. 111-32 (FY2009)	30 <sup>a</sup>				
Program Totals	<b>\$570</b>	<b>\$19,700</b>	<b>\$73</b>	<b>\$7</b>	<b>\$20,350</b>

**Source:** Compiled by CRS.

**Note:** The above funding only accounts for supplemental funding that was provided for disaster relief. HUD base funding that was used for disaster relief is beyond the scope of this report.

- a. The act amends P.L. 110-329 by replacing the \$50,000,000 allocation provided in P.L. 110-329 with an \$80,000,000 allocation, for a net new appropriation of \$30,000,000.

**Table 3. HUD Supplemental Appropriations for Hurricane Katrina Disaster Relief**

Total funding: \$20,350,299,500

Public Law	Funding	Intended Use of Funds
P.L. 111-32, Supplemental Appropriations Act, 2009	\$30,000,000 (Tenant-Based Rental Assistance)	The act replaces a \$50,000,000 allocation provided in P.L. 110-329 for project-based rental assistance with an \$80,000,000 allocation, and it designates all of the funding for tenant-based rental assistance (vouchers) for areas affected by Hurricanes Katrina and Rita. (123 Stat. 1908)
P.L. 110-329, Hurricane Disasters Assistance, 2008	\$85,000,000 (Tenant-Based Rental Assistance) \$50,000,000 (Project-Based Rental Assistance) \$15,000,000 (Public Housing Capital Fund)	Provides funding for permanent housing vouchers for persons assisted under the disaster housing assistance program whose assistance would otherwise end on March 1, 2009.  Provides funding for project-based vouchers for areas impacted by Hurricanes Katrina and Rita.  Provides funding for redeveloping public housing impacted by Hurricanes Katrina and Rita. (122 Stat. 3599)
P.L. 110-252, Supplemental Appropriations Act, 2008	\$73,000,000 (Permanent Supportive Housing)	Provides funds for 3,000 units of permanent supportive housing to be administered by the Louisiana Recovery Authority as part of its Road Home program. Allocates \$20 million for project-based vouchers, \$3 million for the administration of the project-based vouchers, and \$50 million for grants under the Shelter Plus Care program. (122 Stat. 2351)
P.L. 110-116, Road Home Appropriations under Department of Defense Appropriations Act, 2008	\$3,000,000,000 (CDBG)	Provides funding for the Road Home Program, through the Department of Defense Appropriations for FY2008. The funding will be provided as part of HUD's Community Development Block Grant. The funds can only be used to cover costs associated with otherwise uncompensated but eligible claims that were filed on or before July 31, 2007, under the Road Home Program administered by the State of Louisiana. (121 Stat. 1343)
P.L. 110-28, U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007	\$7,000,000 (Inspector General)	Provides funding for HUD's Office of Inspector General to ensure accountability in the use of Hurricanes Katrina and Rita disaster relief funds. (121 Stat. 161)

Public Law	Funding	Intended Use of Funds
P.L. 109-234, Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006	\$5,200,000,000 (CDBG)	Makes emergency supplemental appropriations to HUD in response to the consequences of Hurricanes Katrina, Rita, and Wilma. CDBG disaster recovery funds were to be allocated among the five states (Louisiana, Texas, Alabama, Mississippi, and Florida) affected by the Gulf Coast hurricanes of 2005; the amount that any one state may receive was limited to \$4.2 billion; states were encouraged to target assistance to infrastructure reconstruction and activities that would spur the redevelopment of affordable rental housing, including federally assisted housing and public housing. Requires each state to develop a HUD-approved recovery plan and to submit quarterly reports to House and Senate Appropriation Committees. (120 Stat. 472)
P.L. 109-148, Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006	\$11,500,000,000 (CDBG) \$390,299,500 (Public and Indian Housing)	Provides CDBG funding for activities and necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure in the areas most impacted and distressed by hurricanes in the Gulf of Mexico in 2005 (Hurricanes Katrina, Rita, and Wilma) in states for which the President declared a major disaster under Title IV of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.). (119 Stat. 2780)  Provides \$390 million in Public and Indian Housing funding for housing vouchers directed towards HUD-assisted households displaced by Hurricanes Katrina or Rita. (119 Stat. 2779)

**Source:** Compiled by CRS; CDBG Supplemental Appropriations drawn from CRS Report RL33330, *Community Development Block Grant Funds in Disaster Relief and Recovery*, by Eugene Boyd.

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